

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the July 7, 1999
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: August 4, 1999

INFORMATION: _____

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee Meeting held in open session July 7, 1999 are submitted on the following pages.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
JULY 7, 1999
OPEN SESSION
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Marty Mathiesen
Lillian Raffel
Emma Zink
Phil Angelides, State Treasurer
Kathleen Connell, State Controller
Richard Whitmore, representing State Superintendent
of Public Instruction, Delaine Eastin
Annette Porini, representing State Director of Finance
Tim Gage

ALSO PRESENT

James Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer
Elleen Okada, Director of Investment Admin. and External Relations
Chris Waddell, Chief Counsel
Beth Renge, Deputy State Controller
Michael Picker, Deputy State Treasurer
Eileen Park, Treasury Program Manager
Chris Drevalas, Treasury Program Manager
Doug Wills, Staff Counsel
Steven Tong, Director of Internal Equities
Mitch Pleis, Director of Real Estate
Real Desrochers, Director of Alternative Investments
Michelle Cunningham, Director of Fixed Income
Richard Rose, Investment Officer
Allan Emkin, Pension Consulting Alliance
Toni Brown, Callan Associates
Kristine Ford, Mercer Investment Consulting
Nori Gerardo Lietz, Pension Consulting Alliance
Doug Le Bon, Pathway Capital Management
Edna White, California Retired Teachers' Association
George Wichman, California Teachers' Association
Charles Girratana, California Teachers' Association

Mary Ann Avansino, Administrative Assistant

A quorum being present, Chairperson Lynes called the open session meeting at 9:30 a.m.

I. **ANNOUNCEMENTS** (Item 2)

Mr. Mitchell announced that last week the Fund surpassed \$100 billion. Staff was directed to organize a cake and punch celebration to include all former board members and representatives following September's Investment Committee Meeting.

II. **APPROVAL OF MINUTES OF THE JUNE 2, 1999 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Ms. Zink, seconded by Ms. Raffel and carried to approve the minutes of the June 2, 1999 Investment Committee, Open Session as presented.

Dr. Connell arrived at the meeting at 9:45 a.m.

III. **PANEL ON ASSET ALLOCATION** (Item 4)

Mr. Mitchell introduced Ms. Ford, Ms. Brown and Mr. Emkin. The panel discussed asset allocation trends, responsibility, problems due to the size of the Fund, and capital markets. Discussion ensued.

Chairperson Lynes recessed the meeting at 11:15 a.m.
The meeting reconvened at 11:25 a.m.

Dr. Connell did not return to the meeting following the recess. Ms. Renge assumed representation for the State Controller.

IV. **ASSET ALLOCATION REVIEW** (Item 5)

Mr. Emkin discussed the written report and minimum constraints for the model. These minimums were set as Real Estate 5%, Alternative Investments 5%, Cash 1% and Domestic Equity 25%. A preliminary asset allocation report will be presented to the Investment Committee in August and the adoption of a formal asset allocation plan will be scheduled for September.

Ms. Zink and Mr. Fenimore left the meeting at 12:00 p.m.

V. **CREDIT ENHANCEMENT PROGRAM – SCHOOL BOND CREDIT ENHANCEMENT** (Item 6)

Mr. Rose reviewed the written item. Discussion ensued.

MOTION duly made by Mr. Angelides, seconded by Ms. Porini and carried to adopt a resolution to authorize CalSTRS to participate in the pooled credit enhancement transactions through the California School Finance Authority.

Ms. Zink and Mr. Fenimore returned to the meeting at 12:05 p.m.

VI. **REAL ESTATE – PENSION CONSULTING ALLIANCE, INC. AND E&Y KENNETH LEVENTHATL REAL ESTATE GROUP CONTRACT AMENDMENT** (Item 7)

Mr. Pleis reviewed CalSTRS' participation in Lazard Freres Strategic Realty Investors Fund 1 (LFSRI). Mr. Pleis reported that three of the four key individuals managing LFSRI left the firm. Discussion ensued.

MOTION duly made by Mr. Mathiesen, seconded by Mr. Fenimore and carried to adopt a resolution to approve a contract amendment to the existing contract with Pension Consulting Alliance Inc./E&Y Kenneth Leventhal. The amendment will provide for a special project, to perform specialized monitoring and evaluation of the Lazard Freres Strategic Realty Investors Fund 1, including a report to the Investment Committee for actual expenses, billed on an hourly basis, not to exceed a maximum of \$50,000. Ms. Renge abstained

VII. **REPORT ON THE SUBCOMMITTEE ON CORPORATE GOVERNANCE** (Item 8)

Mr. Angelides reported that an activity plan for the Subcommittee on Corporate Governance was discussed. He further reported that there would not be a subcommittee meeting in August.

Chairperson Lynes recessed the meeting at 12:10 p.m.
The meeting reconvened at 12:50 p.m.

VIII. **GENERAL – PROPOSED 1999/00 INVESTMENT BRANCH OBJECTIVES** (Item 9)

Mr. Mitchell, Mr. Tong, Mr. Pleis, Mr. Desrochers, Ms. Okada, and Ms. Cunningham reviewed proposed objectives for 1999/00. Discussion ensued regarding prioritizing the objectives.

Dr. Bodle left the meeting at 1:25 p.m.
Mr. Angelides left the meeting at 1:30 p.m. Mr. Picker assumed representation for the State Treasurer.

For Investment Committee approval at the August meeting, Mr. Mitchell will present the revised 1999/00 objectives categorized by monthly priority and by division.

Chairperson Lynes recessed the meeting at 2:10 p.m.
The meeting reconvened at 2:20 p.m.

Mr. Picker did not return to the meeting following the recess. Ms. Drevalas assumed representation for the State Treasurer.

IX. **LEGISLATION** (Item 10)

There was nothing further to report.

X. **ACTIVITY STATUS REPORT – CREDIT ENHANCEMENT** (Item 11)

Mr. Rose presented updates to the written report.

XI. **ACTIVITY STATUS REPORT – REAL ESTATE** (Item 12)

Mr. Pleis presented the written report.

XII. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 13)

Mr. Desrochers presented the written report. He further reported that Thomas Lee had sold 20% of the general partnership to Putnam.

- XIII. **QUARTERLY LITIGATION REPORT** (Item 14)
Mr. Waddell presented the written report.
- XIV. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 15)
Mr. Mitchell presented the written report and discussed the draft of a press release announcing CalSTRS reaching \$100 billion.
- XV. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 16)
There were no statements from the public.
- XVI. **MOVE TO CLOSED SESSION**
Chairperson Lynes recessed the meeting at 2:50 p.m. and reconvened directly into closed session at 2:50 p.m.
- XVII. **ADJOURNMENT**
Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 3:10 p.m.

James D. Mosman, Chief Executive Officer and Secretary to the
Teachers' Retirement Board

Gary Lynes, Chairperson